

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 /018 W
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FM AMEMBASSY BUENOS AIRES

TO USDOC WASHDC

INFO SECSTATE WASHDC 0677

UNCLAS BUENOS AIRES 2423

E.O. 11652: N/A

TAGS: BEXP, AR

SUBJ: EARLY WARNING: GOA 3.5 MILLION TON STEEL PLANT

REF: A) BA 5807, AUG 6, 1974; B) BA 3226, MAY 3, 1974

1. BID CONTEST DESCRIBED IN REFTEL (B) WAS FORMALLY ANNULLED IN MID MARCH 1975. ANNULMENT FOLLOWED RE-EXAMINATION BY NEW GOMEZ MORALES ECONOMIC TEAM OF PROJECT AND PROCEDURES FOLLOWED IN BID CONTEST. THESE WERE APPARENTLY FOUND WANTING, AS WAS ONLY SERIOUS OFFER RECEIVED-THAT OF ITALIAN GROUP HEADED BY FINSIDER.

2. GOA HAS ASSIGNED RESPONSIBILITY FOR PROJECT TO ARMED FORCES' INDUSTRIAL COMPANY FABRICACIONES MILITARES (FM). FM HAS BEEN CHARGED BY DECREE NO. 586/75 WITH THE FORMATION OF A "MIXED COMPANY" TO BE CONTROLLED BY THE ARGENTINE GOVERNMENT AND WHICH WILL BE THE INSTRUMENT FOR CONSTRUCTING THE STEEL COMPLEX. FM HAS UNTIL JUNE 1975 TO CONSTITUTE THE MIXED COMPANY, AND AT THAT POINT WILL BE SEEKING EQUITY CAPITAL BOTH IN ARGENTINA ABROAD. SHOULD THEY NOT FIND SUFFICIENT CAPITAL, THE GOA WOULD BE FORCED EVENTUALLY TO SUBSCRIBE THE BALANCE AS WELL.

3. OFFICIALS AT FM FORESEE A "BY INVITATION" INTERNATIONAL CALL FOR BIDS FOR THE ENGINEERING, CONSTRUCTION AND EQUIPPING OF THE PLANT SOMETIME AFTER MID-1975. THE TOTAL COST OF THE PLANT IS NOW ESTIMATED AT US\$ 2 BILLION, WITH IMPORTED COMPONENT AT APPROXIMATELY 60 PERCENT OF
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THIS FIGURE OR US\$ 1.2 BILLION.

4. COMMENT: WHILE THE GOVERNMENT'S APPROACH TO THE PROJECT NEVERTHELESS REMAIN DIFFICULT FOR THEM TO ATTRACT PRIVATE CAPITAL FOR THIS PROJECT BECAUSE OF THE GOA'S INSISTENCE IN MAINTAINING CONTROL, THEIR PRICING POLICIES AND CURRENT POLITICAL UNCERTAINTIES. WE DO NOT DISCOUNT THE POSSIBILITY OF A MANAGEMENT CONTRACT WITH ONE FO SHAREHOLDERS, BUT THIS POSSIBILITY HAS NOT BEEN MENTIONED BY FM. STILL, ARGENTINA REMAINS POLITICALLY COMMITTED TO AN EXPANSION OF ITS STEEL MAKING CAPACITY, AND THIS VENTURE SEEMS MORE LIKELY TO SUCCEED THAN THE LAST ONE. OBVIOUSLY, IT REPRESENTS A MAJOR EXPORT SALES, AND RPT, AN INVESTMENT OPPORTUNITY FOR U.S. FIRMS.

5. CAN USDOC GIVE EMBASSY A READING ON WHETHER THERE IS NOW LIKELY TO BE ANY GREATER INTEREST BY U.S. FIRMS THAN PREVIOUSLY IN INVESTING IN SUCH A PROJECT IN ARGENTINA?
HILL

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Disposition Approved on Date:
Disposition Authority: n/a
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Disposition Event:
Disposition History: n/a
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